



STRENGTHENING SOCIAL SECURITY: BY THE NUMBERS

President Bush has proposed allowing younger workers the choice to voluntarily invest a part of their Social Security taxes in personal retirement accounts. These accounts offer workers increased ownership and control, the ability to build a nest egg, and the opportunity to receive higher rates of return than traditional Social Security.

Younger Workers And The Power Of Compound Interest

"If you're making \$35,000 all your life, and you're allowed to take a third of your payroll taxes and set it aside in a conservative mix of bonds and stocks that have a reasonable rate of return, then when you get ready to retire, **you'll have \$250,000 as part of a retirement plan.**" (President Bush, 5/4/2005)

How Was This Calculated?

- An average wage worker who would earn around \$35,000 this year, who worked from age 21 to 65 and invested 4 percentage points of payroll taxes in a conservative mix of bonds and stocks, could expect to retire with nearly a quarter million dollars in his account.

Low-Wage Earners And The Power Of Compound Interest

"If you're a 20-year-old mom earning \$8 an hour over the career, and you're allowed to take a third of your payroll taxes and put it in a conservative mix of bonds and stocks, by the time that person retires, **she would have a \$100,000 nest egg.**" (President Bush, 5/19/2005)

How Was This Calculated?

- This is the amount that someone who works from age 20 to 63, earning a starting wage of \$8 an hour, with increases along with wage growth over the course of her career, would have at retirement if allowed to invest 4 percentage points of payroll taxes in a conservative mix of bonds and stocks.

Young Couples And The Power Of Compound Interest

"Say, you're a police officer and a nurse, and enter the work force in 2011; ... you make the average salary those folks make over time, and you (both) set aside a third of your payroll taxes...by the time both retire, **they have about \$669,000 in a personal savings account.**" (President Bush, 5/24/2005)

How Was This Calculated?

- This is the amount that a young professional couple, both of whom work from age 21 to 65 and invested 4 percentage points of their payroll taxes, could expect to have by the time they retire.
- The average salary of a police supervisor is 1.7 times the average wage.
- The average salary of registered nurse is 1.4 times the average wage.

More Behind The Numbers

- All examples are in 2005 dollars (i.e. future retirement benefits adjusted for inflation and presented in 2005 dollars).
- For all account examples, the following assumptions are constant in calculating the end balance:
 - ✓ Contribution rate = 4% (or annual cap)
 - ✓ Investment rate of return = 4.6% real (this is for a portfolio mix of bonds and stocks)
 - ✓ Wage growth = 1.1% real